

Water Utilities

Price:	\$43.56
Fair Value Estimate:	\$70.00
52-Week Range:	\$32.09 - \$46.90
Market Cap (MM):	9,400
Shr.O/S-Diluted (mm):	215.8
Average Daily Volume:	1,151,504
Book Value:	\$17.73
Dividend:	\$0.94
Yield:	2.2%

FYE: Dec	2019E	2020E	2021E
EPS:	\$1.47E	\$1.56E	\$1.70E
Prior EPS:	\$1.50	NC	\$1.77
P/E Ratio:	29.6x	27.9x	25.6x

Quarterly EPS:

Q1	\$0.28A	\$0.56E	\$0.63E
Q2	\$0.37A	\$0.20E	\$0.19E
Q3	\$0.48A	\$0.30E	\$0.28E
Q4	\$0.34E	\$0.53E	\$0.60E

EPS: adjusted

Quarterly Revenue (M):

Q1	\$201A	\$672E	\$711E
Q2	\$219A	\$392E	\$423E
Q3	\$244A	\$367E	\$398E
Q4	\$226E	\$597E	\$635E
Year:	\$890E	\$2,028E	\$2,168E



November 5, 2019

Aqua America, Inc.

(WTR) - BUY

WTR: 3Q19 Results Above Expectations; Maintain BUY Rating, \$70 Fair Value

PORTFOLIO MANAGER BRIEF

WTR's 3Q19 EPS results were above expectations, with adjusted EPS of \$0.48 above the consensus forecast of \$0.44. The company also reiterated its full year adjusted EPS guidance range of \$1.45 to \$1.50. With the Peoples Gas transaction now anticipated to close in 4Q19 or early 1Q20, we've removed Peoples Gas forecasts from our 4Q19 estimates (but are maintaining them for 1Q20). With both the Peoples Gas and DELCORA acquisitions moving forward, normal M&A activity and continuing rate relief, we see significant growth in the years ahead. Valuation remains attractive, as well; with the shares trading at a P/E 26x our 2021 EPS estimate of \$1.70 and yielding 2.1% (highest in the peer group) we reiterate our BUY rating and \$70 Fair Value.

ANALYST NOTES

- **3Q19 Adjusted EPS Results Ahead of Expectations.** On the top line, revenues of \$244MM were just below consensus of \$250MM but higher YoY by 7.7% as rates, growth and volume all positively contributed. The company continues to experience higher O&M expenses due to the Peoples Gas transaction, which negatively impacted GAAP EPS of \$0.38. Adjusted 3Q19 EPS was \$0.48, 9.4% higher YoY and well above the Street estimate of \$0.44.
- **Major Acquisitions Still Awaiting Closing.** The Peoples Gas transaction is expected to close in late 2019 or early 2020, while DELCORA is expected late 2020. For Peoples Gas, the Administrative Law Judge assigned to the case rendered a positive decision, and recommended the PA Public Utility Commission approve the acquisition. The DELCORA transaction also requires PAPUC approval.
- **Regulatory Update.** In the company's geographic operating footprint, its received annual rate increases totaling \$59.8MM across Illinois, New Jersey, North Carolina, Ohio and Pennsylvania. Peoples Gas filed a settlement agreement in its PA rate case in July 2019, and the PAPUC authorized a \$59.5MM increase on October 3, 2019. New rates become effective January 1, 2020.
- **Summary/Valuation.** Aqua's ability to continue executing acquisitions both large and small sets the stage for continued earnings growth in the years ahead. For both its gas and water assets, the pipeline of opportunities remains robust, and our positive investment thesis remains decidedly bullish. We maintain our BUY rating and \$70 Fair Value, based on a P/E of 41x our 2021 EPS estimate of \$1.70. We note the shares have the highest yield in the peer group (2.14%) and dividend growth should continue to be mid-to-high single digits for the foreseeable future.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Aqua America, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Aqua America, Inc..

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Aqua America, Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Aqua America, Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Aqua America, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

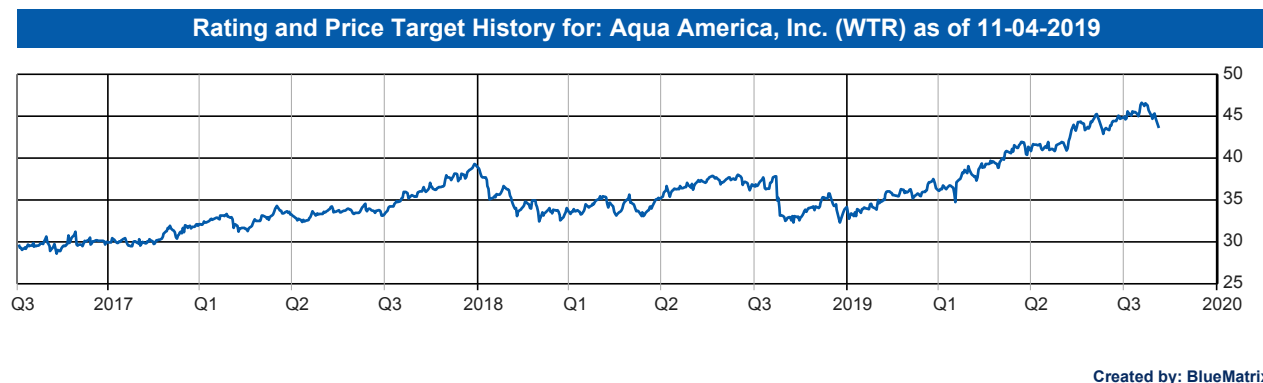
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 09/30/2019

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	171	52.78	37	21.64
NEUTRAL [N]	151	46.60	20	13.25
SELL [S]	2	0.62	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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